

PHILIPPINES ECONOMIC WRAP-UP

MAY 20 - MAY 26, 2000

Summary

The peso and stock price index sank to new 19-month lows during the week, reflecting continued concerns over the local political and security situation. President Estrada signed a new General Banking Law which updates the country's five-decade-old General Banking Act. Commercial banks' aggregate NPL ratio had increased to a four-month high as of March, while loans continued to expand modestly. March manufacturing output expanded year-on-year for a fourth consecutive month, but at a slower pace. We also report on promising prospects for a natural gas project and environment-related site closures at Subic Bay Freeport.

These weekly reviews are available on the Embassy's web site (<http://www.usembassy.state.gov/manila>). We have just released a longer and more detailed review of the Philippine economy in our May Economic Outlook, which can also be found on our web site.

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FOREX REPORT

Regional currency movements and mounting jitters over political unrest and security problems (following a second weekend explosion at a major Metro-Manila mall) continued to weigh down the peso during the week. A May 25, mid-afternoon hijacking of a Philippine Airline domestic flight added to the uncertainty, driving down the local currency to P43.40/US\$ by the end of that day. The interbank forex rate had last closed below the P43/US\$ mark in mid-October 1998. The peso recovered some

of its value late in the week. It closed on May 26 at P42.72/US\$, down 2.5% from its May 19 close of P41.67/US\$.

Exchange Rate Tables

| Date | Weighted Average (Pesos/US\$) | Closing (Pesos/US\$) | Volume (Million US\$) |
|--------|-------------------------------------|-------------------------|--------------------------|
| | ----- | ----- | ----- |
| APR 17 | 41.228 | 41.190 | 132.0 |
| 18 | 41.189 | 41.180 | 84.9 |
| 19 | 41.218 | 41.230 | 117.9 |
| 20 | Markets Closed | | |
| 21 | Markets Closed | | |
| APR 24 | 41.258 | 41.275 | 74.5 |
| 25 | 41.342 | 41.355 | 129.2 |
| 26 | 41.378 | 41.310 | 143.7 |
| 27 | 41.278 | 41.300 | 123.8 |
| 28 | 41.279 | 41.280 | 136.9 |
| MAY 01 | Markets Closed | | |
| 02 | 41.275 | 41.279 | 127.9 |
| 03 | 41.269 | 41.270 | 84.4 |
| 04 | 41.265 | 41.280 | 65.5 |
| 05 | 41.279 | 41.280 | 112.6 |
| MAY 08 | 41.274 | 41.280 | 45.0 |
| 09 | 41.279 | 41.279 | 57.5 |
| 10 | 41.353 | 41.370 | 113.5 |
| 11 | 41.398 | 41.430 | 93.5 |
| 12 | 41.474 | 41.500 | 119.5 |
| MAY 15 | 41.589 | 41.560 | 135.5 |
| 16 | 41.613 | 41.630 | 86.6 |
| 17 | 41.662 | 41.665 | 145.5 |
| 18 | 41.727 | 41.730 | 183.0 |
| 19 | 41.682 | 41.670 | 103.9 |
| MAY 22 | 41.801 | 41.915 | 157.7 |
| 23 | 42.158 | 42.370 | 161.5 |
| 24 | 42.749 | 42.740 | 119.3 |
| 25 | 43.159 | 43.400 | 206.7 |
| 26 | 42.976 | 42.720 | 170.7 |

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

The Treasury Bureau bucked efforts by local banks to push up local interest rates and only accepted P1.9 billion of bids from the P6.8 billion offer by banks for the government paper. Rates inched upward across all three maturities. The 91 day T-bill increased 28.5 basis points to 8.975% (P550 million awarded of the P1 billion scheduled offering). The longer-term papers increased more markedly -- the 182-day bills by 47.5 basis points to 10.375% and the 364-day bills by 46 basis points to 10.963%, also on partial awards of the P1.5 billion on offer for each tenor.

The results of the May 23 T-bond auction were similar. On a partial award of P1.43 billion (out of P3.0 billion in planned borrowing), the rate for 10-year treasury bonds rose 37.5 basis points to 14.25% (from the previous auction of 10-year bonds on April 25).

The policy-making Monetary Board of the BSP on May 19 approved another 50 basis point increase in the BSP's overnight rates, following a similar May 17 increase. BSP officials noted that the adjustment would widen the narrowing differential between domestic and U.S rates and help temper foreign exchange volatility. BSP officials hinted that further increases could be forthcoming, depending on foreign exchange developments.

Domestic Interest Rates (in percent)

Treasury Bills

| Auction Date | 91 days | 182 days | 364 days |
|--------------|---------|----------|----------|
| ----- | ----- | ----- | ----- |
| APR 17 | 8.744 | 9.535 | 10.510 |
| APR 24 | 8.689 | 9.555 | 10.634 |
| MAY 02 | 8.700 | 9.736 | 10.764 |
| MAY 08 | 8.746 | 9.825 | 10.800 |
| MAY 15 | 8.690 | 9.900 | 10.963 |
| MAY 22 | 8.975 | 10.375 | 11.423 |

Source: Bureau of the Treasury

Prime Lending Rates of 16 Expanded Commercial Banks

Date of Survey Average Range

| | | |
|--------|---------|----------------|
| APR 18 | 11.1330 | 9.50 - 13.375 |
| APR 27 | 11.2353 | 9.50 - 13.375 |
| MAY 03 | 10.9953 | 9.50 - 13.375 |
| MAY 09 | 11.0068 | 9.50 - 13.375 |
| MAY 18 | 11.0078 | 9.50 - 13.375 |
| MAY 25 | 11.1728 | 10.25 - 13.875 |

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

The 33-share Philippine Stock Price Index (PHISIX) closed on May 23 at a new 19-month low of 1,404.67, before posting some gains on selective bargain hunting (mainly blue chips and technology stocks). The Phisix closed May 26 at 1,427.26, down 3.5% from May 19.

Philippine Stock Exchange Index (PHISIX) and Value of Shares Traded

| Date | PHISIX Close | Value (Million pesos) |
|--------|-----------------|--------------------------|
| ---- | ----- | ----- |
| APR 17 | 1637.54 | 1441 |
| 18 | 1648.13 | 1435 |
| 19 | 1664.00 | 3629 |
| 20 | Markets Closed | |
| 21 | Markets Closed | |
| APR 24 | 1664.46 | 482 |
| 25 | 1647.56 | 945 |
| 26 | 1639.83 | 913 |
| 27 | 1620.53 | 950 |
| 28 | 1598.73 | 1046 |
| MAY 01 | Markets Closed | |
| 02 | 1606.04 | 979 |
| 03 | 1592.68 | 692 |
| 04 | 1553.34 | 922 |
| 05 | 1551.90 | 914 |
| MAY 08 | 1518.61 | 828 |
| 09 | 1523.43 | 818 |

| | | |
|--------|---------|---------|
| 10 | 1522.96 | 4599 a/ |
| 11 | 1505.21 | 778 |
| 12 | 1539.31 | 1064 |
| MAY 15 | 1517.09 | 1401 |
| 16 | 1507.98 | 1023 |
| 17 | 1534.05 | 1328 |
| 18 | 1521.36 | 539 |
| 19 | 1478.68 | 1162 |
| MAY 22 | 1412.09 | 935 |
| 23 | 1404.67 | 1143 |
| 24 | 1418.79 | 1266 |
| 25 | 1426.62 | 1267 |
| 26 | 1427.62 | 2540 |

a/ P3.9 billion represented block sale of Bank of Nova Scotia's shares in Solid Bank to Metrobank.
Source: Philippine Stock Exchange

PRESIDENT ESTRADA SIGNS NEW GENERAL BANKING LAW

On May 23, 2000, President Estrada signed into law Republic Act (R.A.) No. 8791 - "The General Banking Law of 2000". Among others, the new law provides for a temporary seven-year window during which foreign banks will be allowed to acquire up to 100% of domestically incorporated banks (with no obligation to later reduce foreign ownership). It also paves the way for the Bangko Sentral to adopt internationally accepted risk-based capital adequacy standards. Other important provisions reflect the government's desire to strengthen transparency, bank supervision, and bank management. Congress did not support some important reforms which the Bangko Sentral had pushed for, including relaxation of the bank secrecy law and more frequent bank examinations. Still, R.A. No. 8791 rewrites the country's five-decade-old "General Banking Act" and is a welcome development for a country which wants to develop a regionally competitive banking system.

BANK NOTES

Global Bank-Asian Bank Ready Merger: Global Business Bank -- the commercial banking subsidiary of the Metrobank group -- announced that the bank intends to

take over the operations of Asian Bank, a commercial bank which it acquired early this year. Global Bank recently finalized its merger with Philippine Banking Corp. and took over the latter's publicly-listed status.

Non-Performing Loans: Although modest, bank loans were up year-on-year for a fifth consecutive month, ending April 3% higher than 1999's comparable level. However, the ratio of the commercial banking system's non-performing loans to total loans increased to 14.1% last March, a four-month high. The nominal NPL level expanded by P6.9 billion (3.3%) month-on-month, outpacing a 1.3% increase in outstanding credits. Bankers have said that banks will continue to clean up loan portfolios and non-performing assets this year, which will temper credit expansion.

MARCH 2000 MANUFACTURING OUTPUT

The National Statistics Office's latest (March 2000) Monthly Integrated Survey of Selected Industries (MISSI) showed continued gains in sales and production volumes. Overall production volume increased by 2.6% year-on-year and overall sales volume by 8.2%. Sales registered positive year-on-year growth for a seventh consecutive month, and overall manufacturing output for a fourth consecutive month. These statistics have raised optimism for stronger manufacturing growth in 2000, spurred by more robust overall demand and heavily drawn down inventories. However, both production and sales growth have slowed from the rates registered in December and January. NSO officials observed that, since mid-1999, the trend of production seemed to be moving in a "cycle of one month decline followed by three months growth". A number of private analysts commented that the growth slowdown hinted of a "cautious" recovery and that business sentiment would affect future trends.

MONTHLY INTEGRATED SURVEY OF SELECTED INDUSTRIES

| | Year-on-Year Growth (%) | |
|--------------|-------------------------|------------------|
| | Production Volume | Net Sales Volume |
| | ----- | ----- |
| January 1999 | -12.4 | -19.0 |
| February | -8.4 | -13.8 |

| | | |
|--------------|---------|------|
| March | -1.6 | -4.9 |
| April | -1.1 | 1.4 |
| May | -1.3 | -4.4 |
| June | -6.5 | -3.0 |
| July | -6.3 | -5.8 |
| August | 11.1 | -4.8 |
| September | 1.1 | 11.9 |
| October | 6.6 | 13.5 |
| November | -9.9 r/ | 8.9 |
| December | 14.4 r/ | 12.1 |
| January 2000 | 14.7 r/ | 20.0 |
| February | 7.1 r/ | 6.3 |
| March | 2.6 p/ | 8.2 |

r/ revised

p/ preliminary

Source: National Statistics Office

SUBIC EXCLUDES 23 TOXIC SITES FROM FURTHER DEVELOPMENT

Subic Bay Metropolitan Authority (SBMA) officials have closed to investors 23 sites, earlier recommended for toxic waste cleanup. These sites have also been excluded from "further development or activity" pending a study on how they could be rehabilitated. The memorandum order does not identify the present use of the 23 sites or the activities there. The SBMA Ecology Center identified priority sites for cleanup as the Subic landfill, Osir basin landfill, Navy Exchange taxi compound, Deltic yard and defense reutilization office, public works vehicle maintenance yard, ship repair facility causeway, explosive ordinance disposal area at Camayan Point, Cubi hospital incinerator and the fire fighting training pit. The People's Task Force for Bases Clean-up, a non-governmental organization, described the closure policy as "vague." It was not clear from the order if ongoing activities in those sites may be retained or also postponed, the task force national coordinator commented.